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AUSTRALIAN PROPERTY MARKET UPDATE

AUGUST 2018

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Quantum has received a number of requests on more information about the current state of the Australian property market. This in part, is the direct response to recent news in media sources on the current downturn in the Australian property market. This report addresses these concerns to current and potential investors at Quantum as well as comparing what is happening in home sales against in Quantum projects apartment sales.

This report focuses on the current market, an update on Quantum's current projects and how the company is experiencing the "coal face" in its actual sales and enquiry levels in regards to its current projects.

There have been conflicting news articles in Australia. In fact, there is good news for the Queensland property market with an expected growth of around 6.5%pa [1] in next year (2019). Various news articles are available on our website www.qreal.com.au/research.php

[1] Moody report Q2 2018

QUARTERLY ECONOMIC REVIEW

Nationally, dwelling value growth has stopped in its tracks, in fact, over the first quarter of this year, national dwelling values have fallen by -0.5%. Although the quarterly rate of decline has slowed compared to recent months, it was the largest fall in values over a first quarter of the year since 2016. Over the 12 months to March 2018, dwelling values increased by 1.2% which was much lower than the 9.1% a year earlier and the slowest annual rate of growth since December 2012. [2]



\$2.5 trillion
Value of Australian Superannuation

\$1.9 trillion
Value of Listed Equities

\$0.972 trillion
Value of Commercial Real Estate

[2] Information from (CoreLogic Asia Pacific, 2018)

The slowdown in dwelling value growth is occurring in most capital cities, with Brisbane and Hobart the only two cities to have recorded value falls to date. Sydney is leading the recent slowdown with values falling by -3.9% from their peak while Perth (-10.8%) and Darwin (-21.6%) have been in decline for a number of years, the falls in Melbourne (-0.7%), Adelaide (-0.4%) and Canberra (-0.2%) have been minor to-date.

The decline in dwelling values across most capital cities is interesting. A fall in values in Sydney and Melbourne is somewhat understandable given surging values over recent years which have led to deteriorating housing affordability and record low rental yields. Furthermore, investors were a key driver of demand and increased regulation leading to higher interest rates have led to a slowing of demand from this segment.

But outside of Sydney and Melbourne values have not really surged nor have investors comprised a larger than normal proportion of market activity. The recent weakness is likely linked to overall housing market sentiment and tighter credit policies impacting on other capital city markets.

The past few years have been characterised by high rates of population growth nationally and a heightened level of new housing construction activity, particularly for units.

The construction boom has facilitated an increase in dwelling accommodation however, it has also occurred at the same time as historic high levels of investment activity in the housing market, with investment largely focused within Sydney and Melbourne.

Residential developers have ramped up the construction of new dwellings, supported by strong demand for their stock, with much of this demand coming from investors that have been attracted by the strong capital gains on offer in Sydney and Melbourne, as well as tax deductibility of investment costs.

Over the period Australia has also seen a sharp rise in the level of foreign investment in housing stock.

More recently investment has slowed due to a combination of credit rationing and higher mortgage rates for investors as well as those not paying down the principal on their mortgage. This has also occurred in line with a slight pull-back in new housing construction.

Although both investment and construction activity has slowed both remain substantially higher than long-term average levels.

Low mortgage rates have not been enough to avoid recent dwelling value declines. While affordability is stretched in Sydney and Melbourne and falls are somewhat understandable, tightened mortgage policies are likely a key driver of the housing market weakness. With a Royal Commission underway into banking it is reasonable to expect that getting a new mortgage is set to become more difficult. Given this, it is reasonable to anticipate that values are likely to continue to decline over the coming quarters, particularly in Sydney and Melbourne where mortgage demand is strongest. What will be interesting to view is the extent to which any weakness in Sydney and Melbourne infects other housing markets across the country. [3]

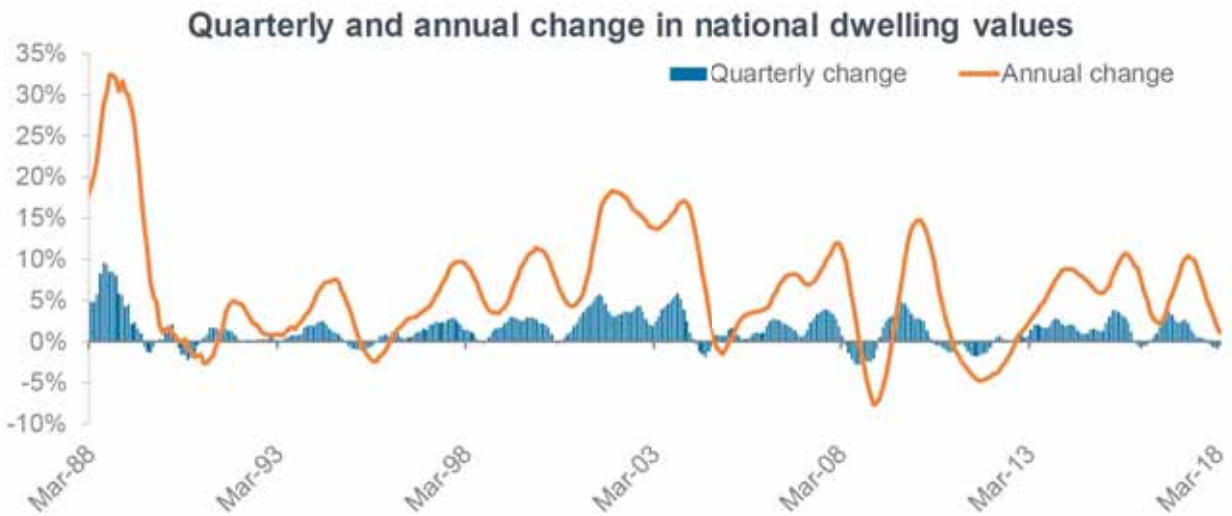
HOUSING MARKET

National dwelling values fell by -0.5% over the first quarter of 2018, following a -0.3% fall over the previous quarter.

- Combined capital city dwelling values fell -0.9% over the quarter while combined regional areas saw values increase 1.1%.
- Both capital city and regional markets are recording slower quarterly growth than they were a year ago
- Values were lower over the quarter in Sydney (-1.7%), Melbourne (-0.5%), Adelaide (-0.4%), Perth (-0.2%), Darwin (-0.1%) and Canberra (-0.2%) while they were unchanged in Brisbane and higher in Hobart (+3.4%).

- Over the past 12 months, national dwelling values increased by +1.2% with combined capital city values +0.8% higher and combined regional market values up +2.6%.

- Annual value growth nationally was the slowest it's been since December 2012 and combined capital city value growth is the slowest it's been since November 2012. [3]



[4]

From the initial outlook, investments sales in apartments have trailed off over the last 6-8 months but have rapidly been overtaken by enquiries by first home buyers (FHB) in apartments, and this is also being seen in the finance statistics that this market has overtaken the investments market and picked up the slack in sales activities.

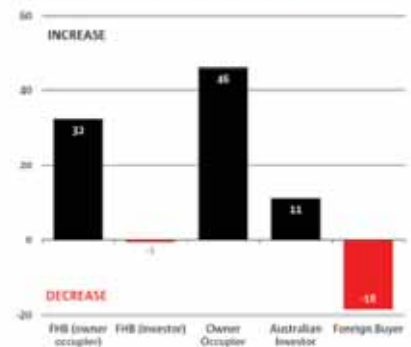
The impact on Quantum Sydney projects has had a reduced impact as our price point is typically between \$600,000 to say early \$800,000. Also, these projects have always been primarily focused on selling to the owner-occupiers as either downsizers/empty-nester or the first home buyers (FHB).

Quantum has been selective in its projects, keeping true to positing project in locations that are not saturated with apartment stock or future developments, and focus on selling to local buyers, not inner city off shore buyers, in which this market has truly collapsed.

“First home buyers return as foreign buyers leave the market, NAB survey reveals. First home buyers are increasing their share of the property market as foreign buyer demand diminishes, a survey of industry insiders has revealed.” [5]

[5] <http://www.abc.net.au/news/2018-02-02/first-home-buyers-return-as-foreigners-buyers-leave-the-market/9391216>

COMPOSITION OF EST. PROPERTY BUYERS NEXT 12 MTHS (NET BALANCE)



[5]

Currently, there has been a steady stream of sales in Adelong and Linden with both projects also on time and on budget in terms of the building and completion dates.

Whilst there has been a small reduction in the overall Sydney apartment prices, Sutherland in particular has remained steady as the focus is to home buyers not investors.

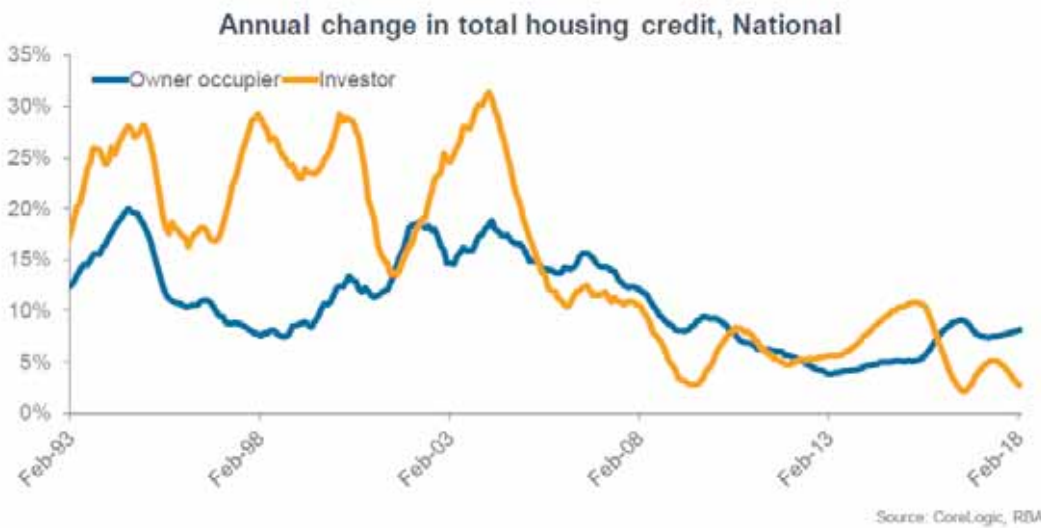
FINANCE UPDATE

Housing finance commitments to owner occupiers are trending higher as commitments to investors trend lower. [6]



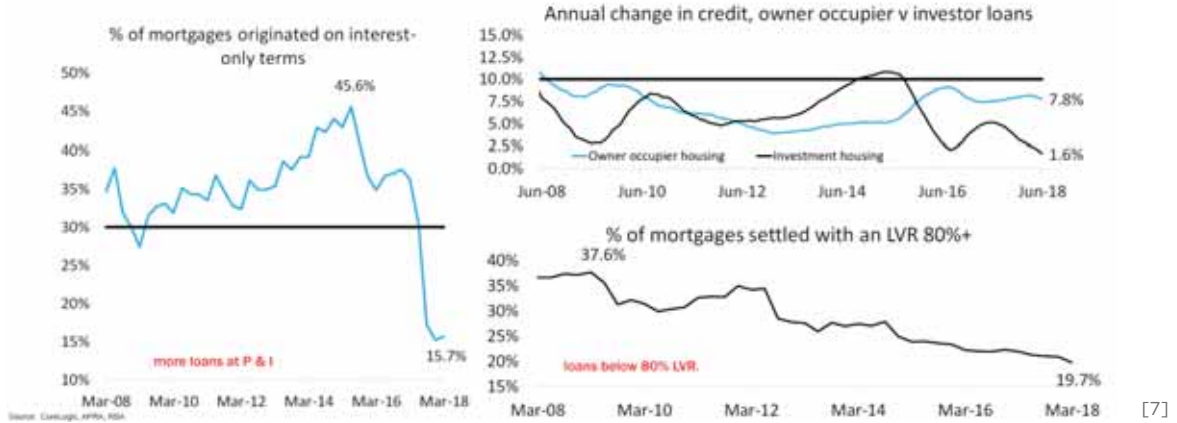
[6]

- Over the month, both owner occupier and investor credit recorded an acceleration in their expansion.
- Owner occupier housing credit increased by 8.1% over the year to February 2018, its fastest rate of expansion since November 2016. [6]



[6]

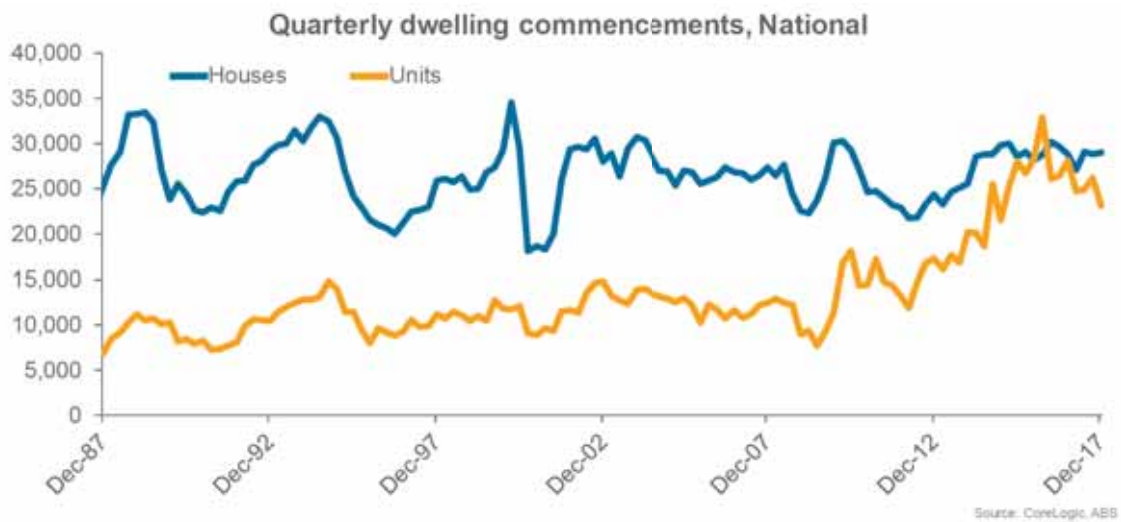
While previous housing cycles have generally been dictated by changes in interest rates, the current slowdown has been heavily influenced by changes in credit availability



HOUSING SUPPLY

Dwelling commencements for units are now in a clear downwards trend

- 52,641 dwellings commenced construction over the December 2017 quarter which was -5.0% lower than over the previous quarter and -8.3% lower than the December 2016 quarter.
- In terms of commencements for new construction, there were 289,038 new houses and 23,150 new units which commenced construction.
- New house commencements were 0.7% higher over the quarter and 0.7% higher year-on-year while new unit commencements fell by -11.7% over the quarter and were -17.7% lower year-on-year.
- Throughout the states and territories commencements were lower relative to the same quarter last year in NSW, Vic, Qld, SA, NT and ACT and were higher elsewhere.
- With approvals now lower than they have been over recent times and an increasing number of projects being delayed or withdrawn, particularly in the high-rise unit space, it is expected that there will continue to be fewer commencements over the coming quarters. [8]



[7] Information from (Core Logic Property Market Chart Pack, August 2018, 2018)

[8] Information from (CoreLogic Asia Pacific, 2018)

“...First home buyer numbers are now 3.5 times higher than they were this time last year for properties below \$800,000, the budget statement said.”

“It’s good that there’s more first home buyers,” said Peter Phibbs, head of Urban and Regional Planning and Policy at the University of Sydney.” [9]

[9] <https://www.domain.com.au/news/nsw-budget-201819-no-changes-for-nsw-home-buyers-property-investors-or-renters-20180619-h11k-cu-440560/>

“Property market sees investors continue to retreat as first home buyers march in... The investors’ loss appears to be the first home buyers’ gain, as the rival bidders switched roles in July 18.” [10]

[10] <http://www.abc.net.au/news/2017-09-08/home-loans-july/8884724>

FOCUS 1: FHB

There are 3 key target markets that Quantum focuses its apartment products on. Due to the focus on these key areas, Quantum is able to sell stock and complete projects to repay investors while also providing unique investment opportunities to apartment buyers.

Opening with first home buyers (FHB).

There has been a huge response to renewed marketing campaigns including results from the new First Home Owner Initiatives for our Brisbane and Sydney projects. This key marketing focus has generated over 800 new leads. These leads have come from sources such as www.realestate.com.au, Facebook and Quantum own lead generating websites. Whilst it is difficult for first home owner to get into the property market (particularly in Sydney where the focus is on outer ring homes),

FHB is looking at apartments nearer transport nodes.

State Governments are providing first home buyer grants coupled with a Quantum First Home Buyer grant/bonuses; this has led to great results at Linton, Kangaroo Point. The last 2 months have led to strong expression of interest (EOIs) with hopes on exchange 5-10 EOIS in the coming weeks. Leads are also generated from Sydney buyers (50) who want to move to Brisbane.

“New housing must be in the right places to meet demand for different housing types, tenure, price points, preferred locations and design. Housing supply must be coordinated with local infrastructure to create liveable, walkable and cycle-friendly neighbourhoods with direct, safe and universally designed pedestrian and cycling connections to shops, services and public transport. This means that some areas are not appropriate for additional housing due to natural or amenity constraints, or lack of access to services and public transport.” [11]

[11] <https://www.greater.sydney/western-city-district-plan/liveability/housing-city/providing-housing-supply-choice-and>

“...Of course, good infrastructure is critical to the liveability of our big cities, which are straining under the burden of strong population growth (another goal of the budget). This means we need better motorways and freeways, and improved public transport. And building these projects will use local resources, create local jobs and leave a legacy for future generations.” [12]

[12] <https://www.smartcompany.com.au/industries/property/budget-2018-will-infrastructure-spending-help-property-markets/>

Mortgage Lending: “Housing finance commitments to owner occupiers are trending higher as commitments to investors trend lower. Housing credit advanced by 0.5% in February with investor credit (0.2%) advancing at a slower pace than credit to owner occupiers (0.7%). Owner occupier housing credit increased by 8.1% over the year to February 2018, its fastest rate of expansion since November 2016. Investor credit expanded by 2.8% over the year, its slowest rate of annual growth since October 2016.” [13]

Tighter lending standards have been cited as one of the primary catalysts for the ongoing downturn in Australia’s housing market.

In particular, regulatory restrictions have driven a sharp decline in loans to housing investors. Housing finance data from the ABS this week showed investor loan approvals have fallen by 29.7% from their peak.

“The first-home buyer share of owner-occupier housing loans increased again during June 2018 and is now at its highest since late 2012,” Garrett said.

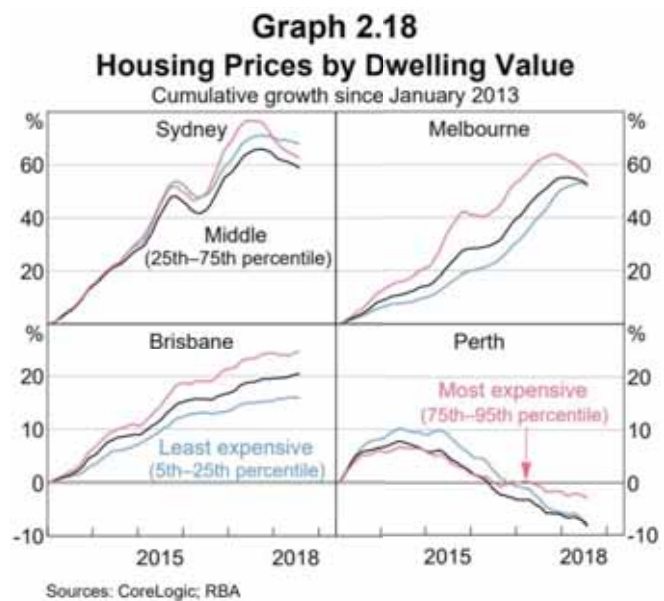
In June, first-home buyers accounted for 18.1% of the growth in owner-occupier loans, continuing a trend seen throughout this year.

This chart from the RBA helps illustrate the effect that first home-buyers are having on the market. [14]

The blue lines show house prices for the least expensive housing segments, while the red line tracks the top end of the market.

Clearly, there’s a trend underway in Sydney and Melbourne: The value of cheaper homes is holding up, while more expensive home prices have gone into reverse.

Pickering attributed the shift to the influence of first-home buyers, who have been able to access finance and purchase homes at the lower end of the market.



[14]

And the HIA’s Garrett said there are a few reasons for the change.

“Several state governments, including NSW and Victoria, have enhanced their incentives giving the first home buyer segment a new lease of life,” Garrett said.

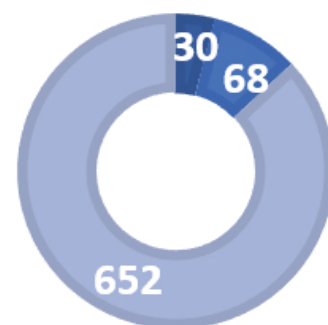
Furthermore, “in recent years, record numbers of newly built apartments have also come on stream. In terms of design and price point, many of these are particularly suited to first home buyers and have made the purchase of their first home possible.” [14]

Our First Home Buyer initiative has generated 750 leads in the last 3 months on the Linton project alone.

Linton First Home Owner Campaign Statistics

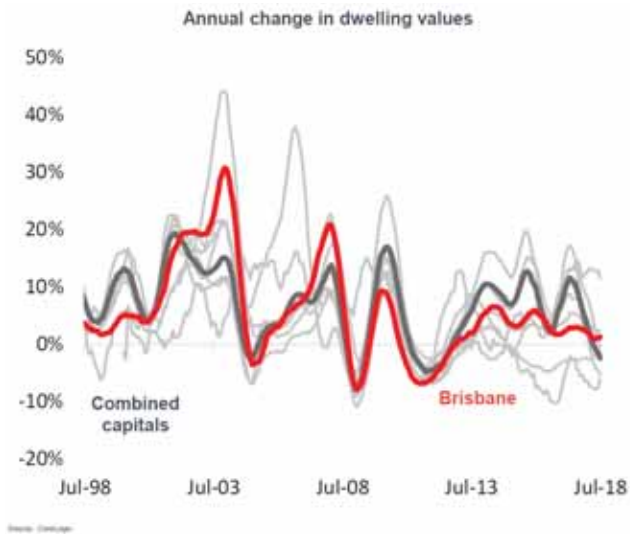
- 33 select apartments available under the FHO offer
- 700+ new leads - last 3 months
- 65 Sales Display appointments
- 400+ phone calls to buyers
- Sydney Support staff additional 250 calls and 21 meetings
- 2 new sales
- 9 potential sales
- 20 red hot leads

RECENT LEAD SOURCE



■ lintonapartments.com.au ■ Realestate.com.au ■ Facebook

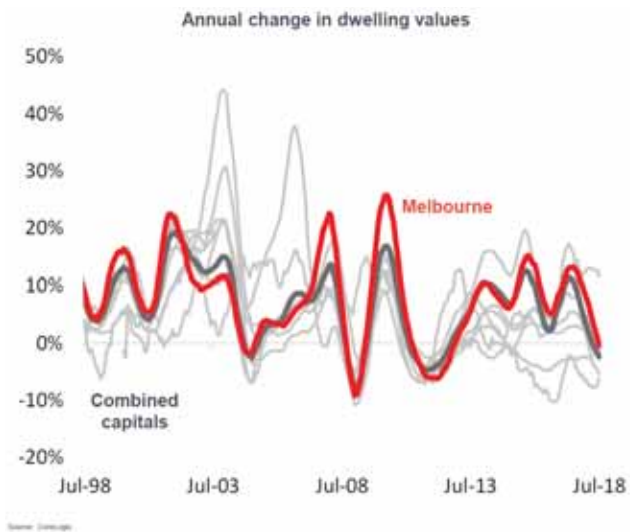
Brisbane



Brisbane home values increased by 0.5% over the three months to July 2018 and they were 1.2% higher over the past year. Over the past year, house values have increased by 1.3% while unit values have increased 0.8%.

[15]

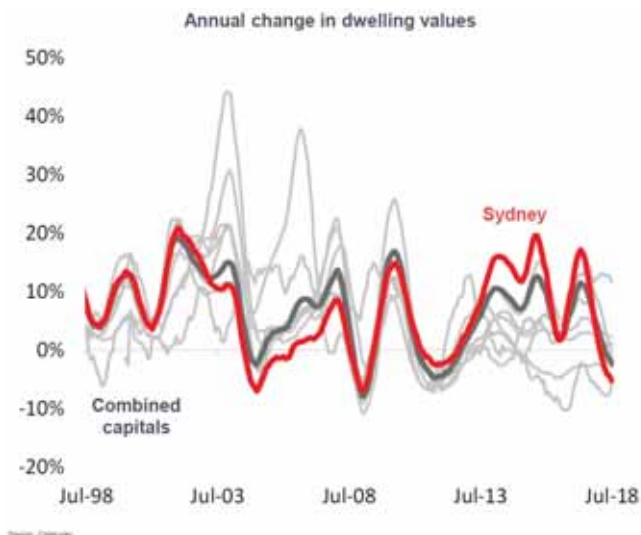
Melbourne



Dwelling values have fallen by -1.8% over the three months to July 2018 in Melbourne. Over the past year, dwelling values are -0.5% lower and they are now -2.9% lower than they were at their peak in November 2017.

[15]

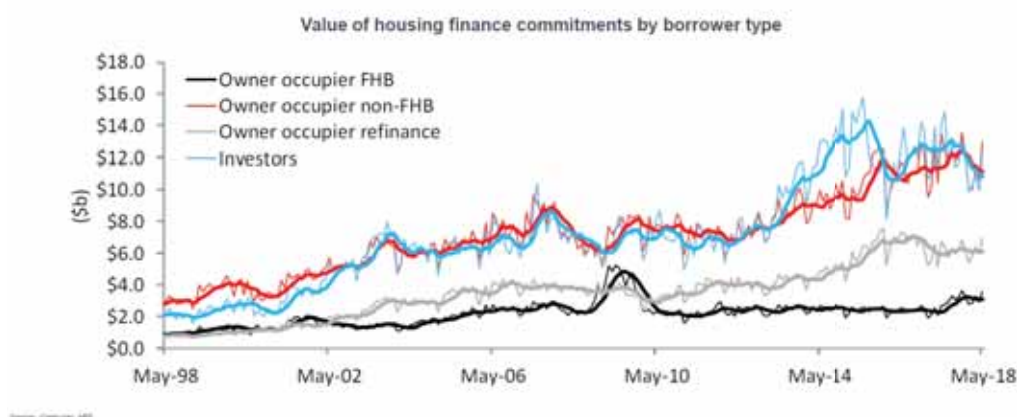
Sydney



Sydney dwelling values have fallen by -1.1% over the 3 months to July 2018 and they are -5.4% lower over the past year with a year ago representing the peak in the Sydney housing market.

[15]

Mortgage demand is trending lower across the board with the greatest reduction in demand from investors



All FHB need to get finance approved, as one of their biggest concern. Banks such as ANZ have moved to offered discounted rates and are pushing hard into this market with attractive finance packages (i.e. nil deposit so long as a parent guarantees 20% of the loan).

ANZ tries to lure new mortgage customers with lower rates. ANZ Bank is ramping up its attempt to attract new lower-risk home loan customers by cutting the interest rate offered to new owner-occupiers with a deposit of at least 20 per cent.... The change means that for its basic home loan, the bank will offer new customers a variable interest rate of 3.65 per cent, 0.34 percentage points lower than previously. [17]

[17] <https://www.smh.com.au/business/banking-and-finance/anz-tries-to-lure-new-mortgage-customers-with-lower-rates-20180802-p4z-v2h.html>

To this end Quantum have linked with finance brokers to FHB and are completing a pre-assessment on all FHB applicants. This is providing a greater sense of comfort and will hopefully convert to sales over the coming weeks/months. As these are first time buyers, they need greater nurturing to get to commit to an apartment purchase.

FOCUS 2: INVESTOR/ EMPTY NESTER

The next key focus market is what Quantum calls the Investor/Empty Nester. Quantum have stock valued at around \$6.3m in the Linton Project, with a price point between \$580,000 to \$844,000, some 8 apartments available in this segment at an average of \$6,235psm (per square meter) (this compares to \$9,000psm in Melbourne and \$12,000psm in Sydney).

Interest is also being shown in these apartments as the price represents good value and the rental returns look positive. Also remember, in Australia retirement incomes are generated from standard superannuation funds, and recent changes to superannuation "caps"/ yearly contributions (**From 1 July 2017, the general concessional contributions cap is \$25,000 for all individuals regardless of age. For the 2014-15, 2015-16 and 2016-17 financial years, the concessional contributions cap is \$30,000 per financial year and is increased to \$35,000 for members aged 49 or over [18]**) means that retirees need to focus on other investment forms to build retirement assets. Negative gearing into property and shares is an attractive alternative and promoted by Quantum.

[18] ATO web site <https://www.ato.gov.au/super/self-managed-super-funds/contributions-and-rollovers/contribution-caps/>

In Sydney, there are 18 apartments between \$600,000 to \$798,000 across Adelong and Linden, and 5 in Alston between \$655,000 to \$730,000, suitable for this market segment.



FOCUS 3: HIGH END/EMPTY NESTERS

The third market segment is the Penthouse or high-end market. The Linton Project currently holds 6 apartments with a combined value of \$9.3m, or on average \$1.55m per apartment (\$7980psm).

Sydney meanwhile has **12** apartments between \$790,000 to \$1,300,000 across Adelong and Linden (All penthouses in the Sydney projects have been sold). In Melbourne there are **5** apartments in Alston between \$750,000 to \$950,000.



In terms of Sydney, there has definitely been a slowdown in home sales of single detached dwellings (houses), and Quantum is aware of the local evidence. In an affluent suburb in Sydney called Wahroonga, evidence of a home worth say at the top of the market the vendor maybe trying to get say \$3.5m, now will say realistically get say \$2.9-3.1m. In principle the property was only worth say \$2.8-3.2m, its just that the “froth” has left the market, or the hysterical buying effect has all but disappeared since late 2017.

POPULATION AND IMMIGRATION DRIVES DEMAND

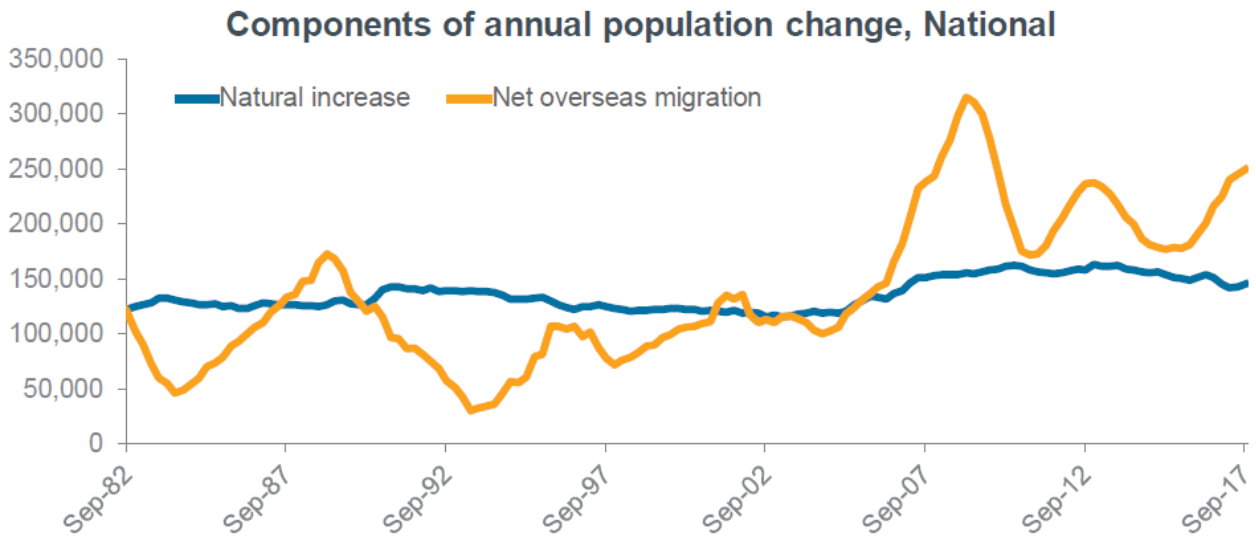
Future key drivers for property sales will be migration and population growth. The annual rate of national population growth has steadied recently:

- It was estimated that at the end of the September 2017 quarter, the national population was 24,702,851 persons.
- Australia’s population increased by 1.6% or 395,613 persons over the 12 months to September 2017.
- While net overseas migration has accelerated, natural increase has slowed

Net Overseas migration is the main driver of the strong rate of population growth. Population growth nationally is comprised of net overseas migration as well as the natural increase in the population (births minus deaths). State-based migration also includes net interstate migration which cancels out at a national level.

Net overseas migration was recorded at 250,127 persons over the 12 months to September 2017 which was 15.4% higher than at the same time in 2016 and at its highest level since September 2009. [19]

[19] Information from (CoreLogic Asia Pacific, 2018)



Source: CoreLogic, ABS [20]

Victoria remains the population growth powerhouse of the nation

- The population of New South Wales increased by 1.6% or 123,105 persons over the 12 months to September 2017. The annual population increase was 5.5% higher over the year and slightly lower than its record high.
- Victoria's population increased by a nation-leading 2.4% over the 12 months to September 2017 with the population increasing by 147,424 residents over the year. The total change in population over the year

was 1.2% higher than over the previous year.

- With an increase of 81,271 persons over the year to September 2017, Queensland's population increased by 1.7% over the year. The 81,271 person increase in population was the greatest annual population increase for the state since June 2013 and 18.8% higher than the population increase a year earlier. [20]

More than three quarters of net overseas migration has been into NSW or Vic

- Most of those people immigrating to Australia continue to choose to settle in either NSW or Vic with net overseas migration over the past year recorded at record highs of 98,762 persons in NSW and 88,521 persons in Vic.
- NSW accounted for 39.5% of net overseas migration nationally and Vic accounted for 35.4%. If you add in the 12.5% in Qld, the three most populous states accounted for 87.4% of national net overseas migration.
- With net overseas migration of 98,782 persons over the past year, New South Wales recorded its greatest volume of net overseas migrants on record

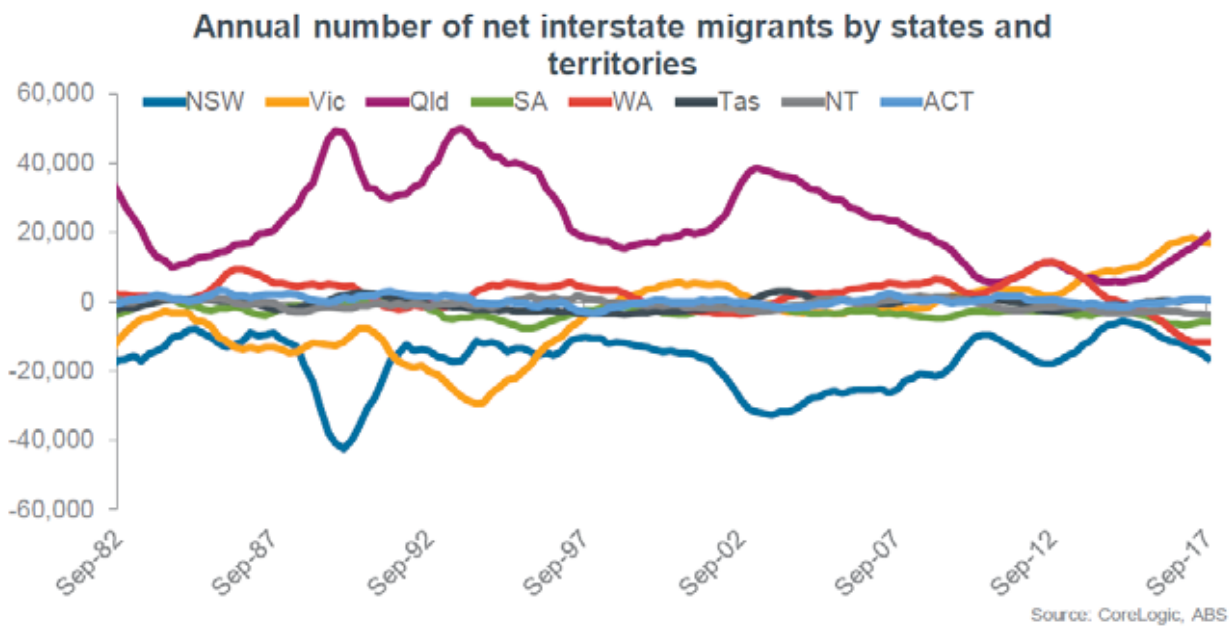
and the number was 17.3% higher compared to the previous year.

- The net overseas migration of 88,521 persons into Victoria over the past year was the greatest number on record and 17.3% higher than the previous year.
- Queensland's net overseas migration was recorded at 31,374 persons over the past year which was 14.1% higher than the number of overseas migrants at the same time a year earlier and the highest number since March 2014. [20]

Queensland continues to lead the pack for net interstate migration

- The net outflow of New South Wales residents to other states and territories was recorded at 16,433 persons over the past year, its greatest decline since December 2012.
- Victoria recorded a net gain from interstate migration of 16,926 persons, that figure has now fallen for two consecutive quarters.

- Net interstate migration to Queensland was recorded at 19,324 persons over the past year, its greatest increase since June 2008. Annual net interstate migration to Queensland now leads the nation and has increased over each of the past 11 quarters.
- South Australia recorded a loss of 5,847 persons over the past year due to net interstate migration which was the lowest annual outflow of residents from the state since December 2015. [21]



Source: CoreLogic, ABS [21]

QUARTERLY RENTAL REVIEW

Rents continue to climb but their rate of growth is slowing

- Weekly rents across the nation were unchanged over the month of June to be 0.3% higher over the second quarter of 2018 and 1.8% higher over the 12 months to June 2018.
- Capital city rents are 0.3% higher over the quarter and 1.4% higher year-on-year while regional market rents are 0.4% higher over the quarter to be 3.1% higher over the past 12 months.
- The annual change in combined capital city rents is the lowest since February 2017 and nationally rental growth is the slowest it's been since March 2017.
- Over the past 12 months, rents have increased in all capital cities except for Perth and Darwin.
- The annual rental change is lower over the past year compared to the previous year in Sydney, Melbourne and Canberra but higher elsewhere.
- Gross rental yields are currently recorded at 3.70% nationally compared to 3.68% at the end of the previous quarter and 3.64% a year ago.
- Gross rental yields have increased over the past 12 months in all capital cities except for Perth and Hobart.

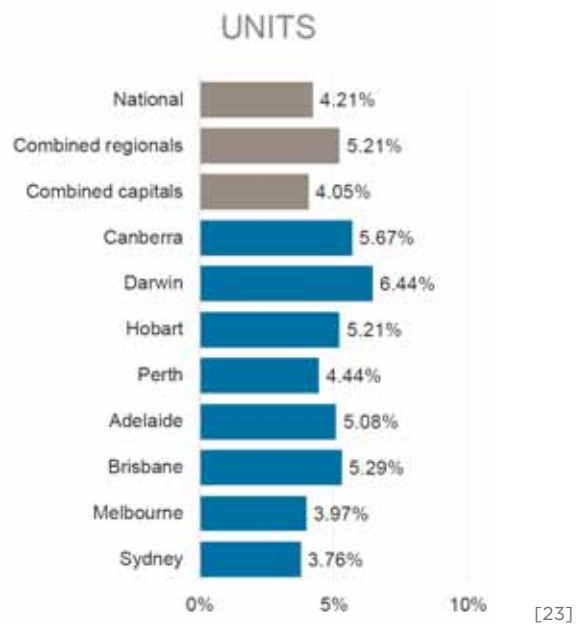
[22]

[21] Information from (CoreLogic Asia Pacific, 2018)

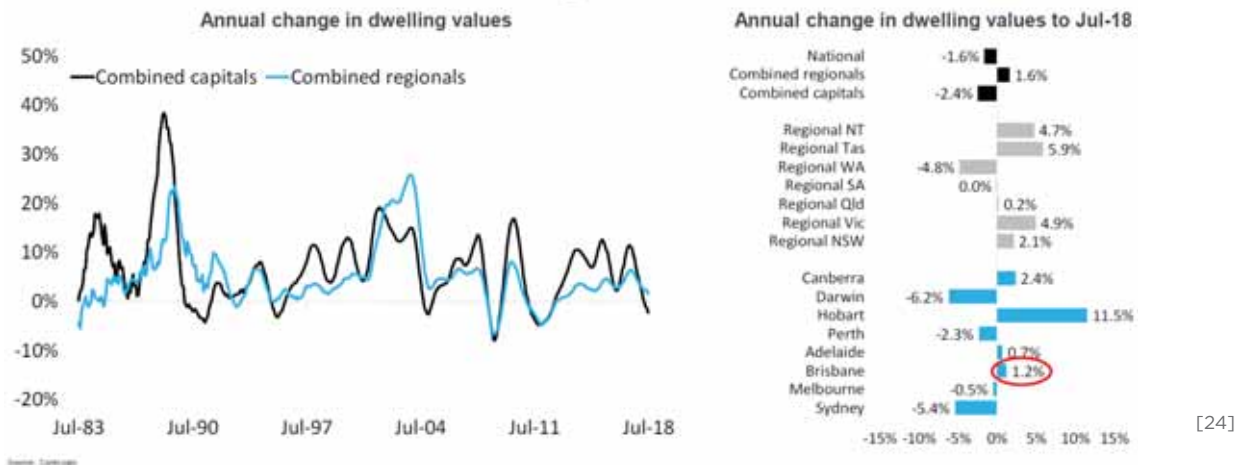
[22] Information from (CoreLogic Asia Pacific, Quarterly Rental Review, 2018)

	Median Rent	Change in Rents			Yields	
		Month	Quarter	12 Months	Current	12 Months
Sydney	\$583	-0.2%	-0.3%	0.1%	3.2%	3.1%
Melbourne	\$447	0.3%	0.9%	3.1%	3.0%	3.0%
Brisbane	\$435	0.1%	0.3%	1.2%	4.4%	4.4%

Throughout the individual capital cities, gross rental yields at the end of the June 2018 quarter were recorded at: 3.21% in Sydney, 3.00% in Melbourne, 4.43% in Brisbane, 4.24% in Adelaide, 3.91% in Perth, 4.94% in Hobart, 5.74% in Darwin and 4.64% in Canberra. Compared to yields at the end of the previous quarter, yields were firmer in Sydney, Melbourne, Brisbane and Canberra but softer elsewhere. In comparison to 12 months earlier only Perth and Hobart currently have lower yields. [23]



Value growth has slowed over the past year with a more rapid slowing occurring across the combined capital cities rather than the combined regional markets



[23] Information from (CoreLogic Asia Pacific, Quarterly Rental Review, 2018)

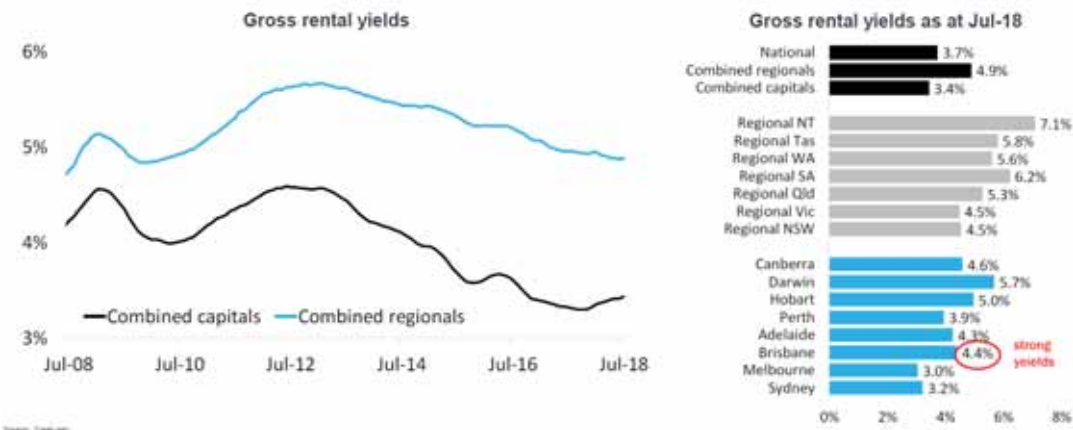
[24] Information from (Core Logic Property Market Chart Pack, August 2018, 2018)

The rate of annual rental growth is slowing fairly rapidly, particularly within the combined capital cities



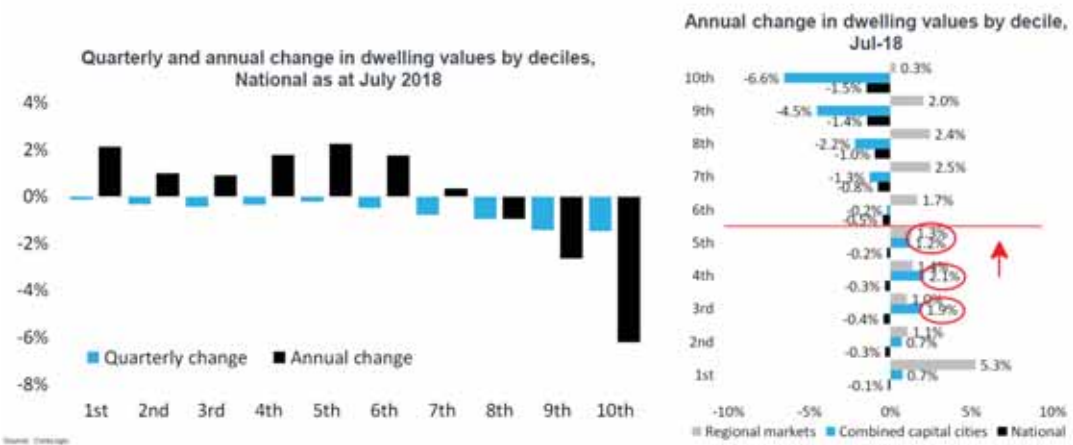
[25]

With capital city dwelling values falling as rents continue to rise, gross rental yields have started to increase from historic low levels



[25]

Premium dwelling values have shown much greater declines than the more affordable housing stock



[25]



QUANTUM
RESEARCH



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